

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58270

EVERETT SCHOOL DISTRICT No. 2

Snohomish County, Washington

September 1, 1995 Through August 31, 1996

Issue Date: June 6, 1997

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EVERETT SCHOOL DISTRICT NO. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Directors
Everett School District No. 2
Everett, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Everett School District No. 2, Snohomish County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated February 14, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Everett School District No. 2 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington (RCW) 43.09.260*. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 14, 1997

EVERETT SCHOOL DISTRICT NO. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Directors
Everett School District No. 2
Everett, Washington

We have audited the general-purpose financial statements of Everett School District No. 2, Snohomish County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated February 14, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of

management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the district in a separate letter dated March 24, 1997.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 14, 1997

EVERETT SCHOOL DISTRICT NO. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

Schedule Of Findings

1. District Officials Should Improve Cash Controls Over Associated Student Body (ASB) Funds At The School Level

Our prior audit, fiscal year 1994/95 (Audit Report No. 57524), disclosed weaknesses in ASB cash handling procedures, citing that established ASB policies and procedures were not completely and consistently implemented at the school level. During our current audit, fiscal year 1995/96, we conducted follow-up reviews of the ASB cash handling procedures and audited the internal controls at four additional schools. We again noted weaknesses in the district's internal controls over ASB funds:

Cash Receipting

- Receipts are not being consistently marked with mode of payment.
- Checks are not restrictively endorsed immediately upon receipt.
- At two of the schools visited, the ASB treasurers are inconsistent in making bank deposits timely.
- Four of the five ASB treasurers are not immediately counting and receipting the moneys received from various ASB activities.
- Cash count forms used to support receipts submitted to the ASB treasurer are often incomplete and/or prepared in pencil.
- At two schools, the custodians have a key to the drawer that houses undeposited receipts.

Fund Raisers and Activities

- Fundraiser files are not consistently and completely maintained to document the activity and final reconciliations. Further, documentation that is prepared is not turned in to the ASB treasurer for verification. No reviews are performed by the primary advisor.
- Documentation of in-class collections by teachers is often insufficient to ensure that all payments received were submitted to the ASB treasurer.
- Ticketed events (e.g. athletics games, plays, dances, etc.): The reconciliations of tickets issued to money collected and submitted to the ASB treasurer are not always

accurate. For example, at one high school, the ticket reconciliation for school plays was not turned in to the ASB treasurer for use in verifying receipts submitted.

Student Stores

- Student Store receipts are not always reconciled immediately and submitted to the ASB treasurer for deposit.
- Student Store physical inventory counts and reconciliations are inconsistent and incomplete. Further, the records for one high school could not be located.
- Access to Student Stores' inventory is not controlled. Anyone with a master key can access the inventory, which could invalidate any benefit of the physical inventory counts and reconciliations described above.

Although the district has taken corrective action in several areas in response to our prior audit report, we continue to find significant internal control weaknesses at several of the schools. We recognize the district's efforts to implement the prior year's recommendations and the corrective action taken during the current audit. The internal control weaknesses that continue to exist expose the district to the risk that errors and/or irregularities (e.g. fraud, theft) could occur that may not be discovered in a timely manner, if at all.

We recommend that district officials continue to monitor identified weaknesses and manage the risks associated with ASB activities, in accordance with the requirements outlined in the district's *ASB Procedures Manual*.

Auditee's Response

As you mention in your draft report, the District has taken corrective action in response to your prior report. We will continue to work with the schools on strengthening internal controls through the implementation of the procedures outlined in the District's ASB Procedures Manual.

Auditor's Concluding Remarks

We would like to thank Everett School District for their response and to acknowledge their efforts in addressing the concerns. Based upon the district's representations, it appears the matters delineated in our report are being addressed. We will follow up on these matters in our subsequent audits.

EVERETT SCHOOL DISTRICT NO. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Financial Statements

Board of Directors
Everett School District No. 2
Everett, Washington

We have audited the accompanying general-purpose financial statements of Everett School District No. 2, Snohomish County, Washington, as of and for the fiscal year ended August 31, 1996, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Everett School District No. 2, at August 31, 1996, and the results of its operations and cash flows of its nonexpendable trust funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 14, 1997, on our consideration of the district's internal control structure and a report dated February 14, 1997, on its compliance with laws and regulations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 14, 1997

EVERETT SCHOOL DISTRICT NO. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Directors
Everett School District No. 2
Everett, Washington

We have audited the general-purpose financial statements of Everett School District No. 2, Snohomish County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated February 14, 1997. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Everett School District No. 2 taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 14, 1997

EVERETT SCHOOL DISTRICT NO. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Directors
Everett School District No. 2
Everett, Washington

We have audited the general-purpose financial statements of Everett School District No. 2, Snohomish County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated February 14, 1997.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

EVERETT SCHOOL DISTRICT NO. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Directors
Everett School District No. 2
Everett, Washington

We have audited the general-purpose financial statements of Everett School District No. 2, Snohomish County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated February 14, 1997.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to obligation of funds, carryover, school-wide projects, private schools, and procedural safeguards as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for reimbursements
- amounts claimed or used for matching

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Everett School District No. 2 complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended August 31, 1996.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not

limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

EVERETT SCHOOL DISTRICT NO. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Board of Directors
Everett School District No. 2
Everett, Washington

We have audited the general-purpose financial statements of Everett School District No. 2, Snohomish County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated February 14, 1997.

In connection with our audit of the financial statements of the district and with our consideration of the district's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended August 31, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Everett School District No. 2 had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

EVERETT SCHOOL DISTRICT No. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Directors
Everett School District No. 2
Everett, Washington

We have audited the general-purpose financial statements of Everett School District No. 2, Snohomish County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated February 14, 1997. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated March 24, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated February 14, 1997.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - Inventory control
 - Equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Property and plant
- **General Requirements**

Davis-Bacon Act
Relocation assistance and real property acquisition
Subrecipient monitoring

- **Claims For Advances**

During the fiscal year ended August 31, 1996, the district expended 81 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

We noted certain matters involving the internal control structure and its operation that we have reported to the management of the district in a separate letter dated March 24, 1997.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 24, 1997

EVERETT SCHOOL DISTRICT NO. 2
Snohomish County, Washington
September 1, 1995 Through August 31, 1996

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. District Officials Should Improve Internal Controls Over Associated Student Body (ASB) Cash Receipting At The Various School Sites

Resolution: Not resolved. Refer to Finding 1 under the management section of this audit report.

2. District Management Should Strengthen Controls Over Enrollment Reporting And Ensure Accuracy Of Enrollment Reports Submitted To The Superintendent Of Public Instruction (SPI)

Resolution: This has been resolved.